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COVID-19 causes a spike in spending on durable goods

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In “Why has durable goods spending been so strong during the COVID-19 pandemic?,” authors Kristen Tauber and William Van Zandweghe (*Economic Commentary*, Federal Reserve Bank of Cleveland, July 2021) use an econometric model to support their assertion that increased spending on durable goods was caused by a shift in consumer demand from services to durable goods and by increased disposable income from fiscal stimulus. The authors indicate that these two conditions account for approximately half of the rise in durable goods spending in 2020.

Tauber and Zandweghe argue that the lockdown and social-distancing safeguards implemented by government, businesses, and consumers during COVID-19 caused a shift in consumer demand from services to durable goods. By spending more time at home, consumers reduced travel, cut back on eating at restaurants, and exercised at home instead of the gym. These actions may have led consumers to substitute services with durable goods by upgrading their kitchen appliances and electronics and purchasing sports equipment.

The authors indicate that unlike the gradual increase in disposable income typically seen after peaks in previous business cycles, disposable income during COVID-19 rose sharply and indirectly caused a boom in durable-goods spending as a result. The authors cite data from U.S. national accounts showing that disposable income increased by $1.18 trillion in 2020 and that about 81 percent of that increase, or $957 billion, resulted from fiscal stimulus. Tauber and Zandweghe show that increased consumer spending on motor vehicles, recreational goods, and furniture and appliances coincided with three rounds of fiscal stimulus that were paid out between April 2020 and April 2021.

The authors acknowledge that the change in consumer behavior brought on by COVID-19 will not be permanent as public health concerns subside and the economy reopens, enabling consumption to emulate a more traditional combination of spending on durable goods, nondurable goods, and services. Reducing fiscal stimulus will cause disposable income to return to its normal long-term trajectory, thus slowing consumer spending on durable goods.